



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0246	Title:	Disclosure of preferred provider contracting with nonpreferred provider
Primary Sponsor:	Kottel, Deborah	Status:	As Introduced

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|--|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$7,455,243	\$7,563,641	\$7,964,877	\$8,430,803
State Special Revenue	\$2,149,801	\$2,372,632	\$2,618,936	\$2,890,808
Federal Special Revenue	\$1,662,513	\$1,834,836	\$2,025,310	\$2,235,558
Other (Prop. & MUS Other)	\$9,477,817	\$9,561,381	\$10,034,492	\$10,587,885
Other (State & MUS Group Insur.)	\$20,745,374	\$21,332,490	\$22,643,615	\$24,145,053
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0
Other (Prop. & MUS Other)	\$0	\$0	\$0	\$0
Other (State & MUS Group Insur.)	\$20,745,374	\$21,332,490	\$22,643,615	\$24,145,053
Net Impact-General Fund Balance:	<u>(\$7,455,243)</u>	<u>(\$7,563,641)</u>	<u>(\$7,964,877)</u>	<u>(\$8,430,803)</u>

Description of Fiscal Impact:

This bill requires that when a referral is made to a provider outside of a preferred provider organization (PPO) network, the insured or subscriber must be informed, offered a referral to an available member within the PPO network, and the insured or subscriber's consent for receiving services outside the network must be obtained. If these requirements are not met, the PPO is liable for the difference in costs to the insured or subscriber for any amounts not covered by the health insurer.

FISCAL ANALYSIS

Assumptions:

Department of Administration (DofA)

1. A preferred provider organization (PPO) is generally a contractual arrangement between a health care provider or providers and payors of health care services such as third-party administrators, health insurers, or employers.
2. These arrangements provide for discounts on health care costs to consumers by permitting health care providers to compete for health care business. The State of Montana Employee Health Plan and the Montana University System plan developed a PPO network in 2001 called Montana Direct in conjunction with other large self-insured employers in Montana.
3. Providers participating within a PPO or other type of network do not necessarily know which other providers belong to the same network and which are outside the network. In addition, the insurer or other administrative entity does not necessarily know who the insured or subscriber is planning to see or receive services from until after they have received services. The insured or subscriber is the only entity who has the ability to know and direct their own movements regarding which providers they opt to see in non-emergent situations. The State Employee Plan and the Montana University System plan do not apply any disincentives to employees for using non-network providers in emergency or urgent situations and makes resources such as dedicated customer service lines, websites, third-party administrator's information (websites and telephone information) as well as individual network information in member brochures available to inform members about in-network providers.
4. During plan year (calendar) 2005, on the Traditional Plan for the state the total expenditure was \$55.6M. During that same time, the difference in what providers billed and the allowed amount applied (before deductibles and co-insurance were calculated) was a savings of \$11.3M. For 2005 alone, if this bill had been in effect, the state would have anticipated that the State Traditional Plan costs would have been increased to a total of \$55.6 million + \$11.3 million = \$66.9 million resulting in a 20% increase to costs for the Traditional Plan.
5. For the same time frame, calendar 2005, total State Employee Plan expenses were \$86.4 million. Increasing this amount by \$11.3 million would be an overall increase of 13%.
6. During plan year (calendar) 2006, on the Traditional Plan for the state the total expenditure was approximately \$61.5 million. During that same time, the difference in what providers billed and the allowed amount applied (before deductibles and co-insurance were calculated) was a savings of \$13M. For 2006, if this bill had been in effect, the state would have anticipated that the State Traditional Plan costs would have been increased to a total of \$61.5 million + \$13 million = \$74.5 million resulting in a 21% increase to costs for the Traditional Plan alone.
7. For the same time frame, calendar 2006, total State Employee Plan expenses were approximately \$92.5 million. Increasing this amount by \$13 million would be an overall increase of 14%.
8. The State Employee Group Benefit Plan currently has the Traditional Plan medical offering which accesses 48 different hospitals and surgery centers statewide including the preferred provider organization known as Montana HealthLink. This permits members to use these facilities and receive a better benefit than if they go to a non-preferred facility.
9. If this bill were to be enacted, the state would anticipate that there would be no incentive for health care providers to contract with payors of health care, either insurers or employers for discounts.
10. For plan year (calendar) 2008, the total expenditures are projected to be \$115,669,601 and for plan year 2009 they are projected to be \$127,667,284. This is based on the third quarter 2006 report prepared by the state's plan consultant. Trending this forward using the same trend assumptions for 2008 and 2009 through 2011 and converting to state fiscal year, the department gets projected expenses of \$110.2 million (FY 2008), \$121.7 million (FY 2009), \$134.3 million (FY 2010), and \$148.2 million (FY 2011).

11. For purposes of this fiscal note, the department assumes that provider network discount arrangements available under the Traditional Plan to State employees will no longer be available. Therefore, it is assumed that the 13-14% increase in total costs seen from the 2005 and 2006 data between the billed and allowed charges will result in increased costs to the plan of a like amount. If this were to occur projected expenses would be \$124.6 million (FY 2008), \$137.5 million (FY 2009), \$151.8 million (FY 2010), and \$167.5 million (FY 2011).
12. The State Employee Plan would need to request additional state share payments, increase premiums, or adjust benefits including deductibles to cover these increased costs or a combination of these. To the extent that state share payments were increased, this would have a direct impact on state agency expenses. To the extent that premiums were adjusted, this would have a direct impact on the insured employees.
13. The State's share of the plan revenues is spread amongst the funding sources in the following percentages. General fund = 33%; State Special Revenue fund = 15%; Federal Special Revenue fund = 11.6%; and Other funds = 40.4%.

Montana University System (MUS)

14. During plan year 2005, on the Traditional Plan for the Montana University System the total expenditure was \$21.8M. During that same time, the difference in what providers billed and the allowed amount applied (before deductibles and co-insurance were calculated) was a savings of \$6.4M. For 2005 alone, if this bill had been in effect, the MUS would have anticipated that the University System Traditional Plan costs would have been increased to a total of \$21.8 million + \$6.4 million = \$28.2 million resulting in a 29% increase to costs for the Traditional Plan.
15. During plan year 2006, on the Traditional Plan for the Montana University System the total expenditure was approximately \$27.3 million. During that same time, the difference in what providers billed and the allowed amount applied (before deductibles and co-insurance were calculated) was a savings of \$5.5 million. For 2006, if this bill had been in effect, the MUS would have anticipated that the University System Traditional Plan costs would have been increased to a total of \$27.3 million + \$5.5 million = \$32.8 million resulting in a 20% increase to costs for the Traditional Plan alone.
16. If this bill were to be enacted, the MUS would anticipate that there would be no incentive for health care providers to contract with payors of health care, either insurers or employers for discounts.
17. For purposes of this fiscal note, the MUS assumes that provider network discount arrangements available under the Traditional Plan to University System employees will no longer be available. The MUS assumes that discounts realized in FY 2005 and FY 2006 will be the same in FY 2008 and FY 2009. The MUS assumes the recent trend of employees selecting the managed care offering will continue, thus trending a 6% decline in the traditional plan due to decreased membership and utilization. The MUS projects increased costs in FY 2010 of \$5.1 million and in FY 2011 of \$4.8 million.
18. The University Employee Plan would need to request additional state share payments, increase premiums, or adjust benefits including deductibles to cover these increased costs or a combination of these. To the extent that state share payments were increased, this would have a direct impact on state agency expenses. To the extent that premiums were adjusted, this would have a direct impact on the insured employees.
19. It is assumed that the additional costs are 50% from the Current Unrestricted Fund (CUF) and 50% from Other University Funds.
20. The CUF is assumed to be funded with 85% General Fund and 15% Tuition.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
<i>Department of Administration</i>				
<u>Expenditures:</u>				
Personal Services	\$14,332,007	\$15,817,548	\$17,459,570	\$19,272,051
Benefits	\$14,332,007	\$15,817,548	\$17,459,570	\$19,272,051
Total Expenditures	\$28,664,014	\$31,635,096	\$34,919,140	\$38,544,102
<u>Funding of Expenditures:</u>				
General Fund (01)	4,729,562	5,219,791	5,761,658	6,359,777
State Special Revenue (02)	2,149,801	2,372,632	2,618,936	2,890,808
Federal (03)	1,662,513	1,834,836	2,025,310	2,235,558
Proprietary (06)	5,790,131	6,390,289	7,053,666	7,785,909
Group Insurance (06)	\$14,332,007	\$15,817,548	\$17,459,570	\$19,272,051
Total Funding of Expenditures	28,664,014	31,635,096	34,919,140	38,544,102
<u>Revenues:</u>				
Group Insurance (06)	\$14,332,007	\$15,817,548	\$17,459,570	\$19,272,051
<i>Montana University System</i>				
<u>Expenditures:</u>				
Personal Services	\$6,413,367	\$5,514,942	\$5,184,045	\$4,873,002
Benefits	\$6,413,367	\$5,514,942	\$5,184,045	\$4,873,002
Total Expenditures	\$12,826,734	\$11,029,884	\$10,368,090	\$9,746,004
<u>Funding of Expenditures:</u>				
CUF - General Fund (31)	\$2,725,681	\$2,343,850	\$2,203,219	\$2,071,026
CUF- Tuition (31)	\$481,003	\$413,621	\$388,803	\$365,475
Other University Funds (3x)	\$3,206,684	\$2,757,471	\$2,592,023	\$2,436,501
MUS Group Insurance (06)	\$6,413,367	\$5,514,942	\$5,184,045	\$4,873,002
Total Funding of Expenditures	12,826,734	11,029,884	10,368,090	9,746,004
<u>Revenues:</u>				
Group Insurance (06)	\$6,413,367	\$5,514,942	\$5,184,045	\$4,873,002
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$7,455,243)	(\$7,563,641)	(\$7,964,877)	(\$8,430,803)
State Special Revenue (02)	(2,149,801)	(2,372,632)	(2,618,936)	(2,890,808)
Federal (03)	(1,662,513)	(1,834,836)	(2,025,310)	(2,235,558)
Proprietary (06)	(5,790,131)	(6,390,289)	(7,053,666)	(7,785,909)
Group Insurance (State and MUS)	\$0	\$0	\$0	\$0
Other University Funds (3x)	(\$3,687,686)	(\$3,171,092)	(\$2,980,826)	(\$2,801,976)

Effect on County or Other Local Revenues or Expenditures:

For cities, counties, school districts, or other local entities that purchase health insurance or contract for health insurance on a self-insured basis and receive provider discounts through preferred provider organization arrangements, this will impact costs to employers and consumers.

Long-Range Impacts:

The DofA and MUS estimate this legislation would have the short-term impact of increasing the cost of health care in Montana and decreasing the availability of health insurance affordability for individuals and employers. Longer-term impacts are difficult to determine.

Technical Notes:

It is unclear how the preferred provider organization ‘PPO’ will be responsible for carrying out the administrative duties and fiscal responsibilities resulting from this bill. A PPO is generally a contracting arrangement between health care providers and payors of health care such as insurers or employers. Ultimately, the administrative burden and financial responsibility would fall to either the health care provider or the insurer or employer, all of whom will have to pass the additional cost on to consumers in the form of additional insurance costs.

Sponsor’s Initials

Date

Budget Director’s Initials

Date